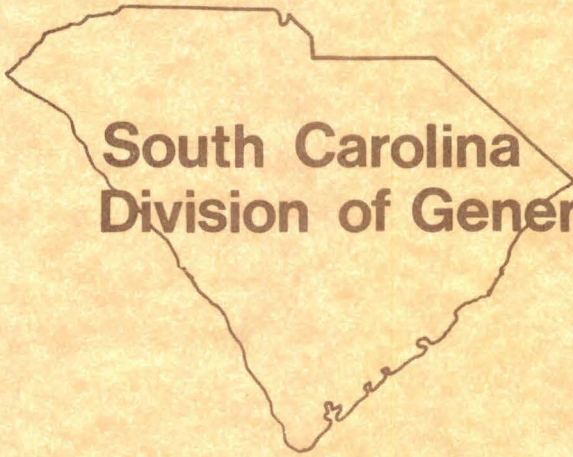


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South Carolina  
Division of General Services

# PROCUREMENT AUDIT AND CERTIFICATION

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MEDICAL UNIVERSITY OF SOUTH CAROLINA

AGENCY

JUNE 9, 1982

DATE





# STATE OF SOUTH CAROLINA

BUDGET AND CONTROL BOARD  
DIVISION OF GENERAL SERVICES  
300 GERVAIN STREET  
COLUMBIA S.C. 29201

MATERIALS MANAGEMENT OFFICE  
300 DUTCH SQUARE BLVD., SUITE 150  
COLUMBIA, SOUTH CAROLINA 29210

June 9, 1982

TONY R. ELLIS  
MATERIALS MANAGEMENT OFFICER  
(803) 753-6060

Mr. T. Michael Copeland  
Division Director  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Mike:

Attached is the final Medical University of South Carolina audit report and recommendations made by the Materials Management Office. I recommend the Budget and Control Board grant the Medical University two years certification as outlined in the audit report.

Sincerely,

A handwritten signature in cursive script, reading "Tony R. Ellis".

Tony R. Ellis  
Materials Management Office

TRE:rms

Attachment

MEDICAL UNIVERSITY OF SOUTH CAROLINA

AUDIT REPORT

June 9, 1982

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## INTRODUCTION

The Audit and Certification Section of the Materials Management Office of the Division of General Services conducted an examination of the internal procurement operating procedures and policies and related manual of the Medical University of South Carolina.

Our on-site review was conducted January 4, 1982 through February 5, 1982.

Our examination was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-2020 of the Emergency Regulations.

### PURPOSE

Our examination was directed principally to determine whether, in all material respects, the internal controls of MUSC's procurement system were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the institution in its efforts to meet the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

## BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The Budget and Control Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The materials management office shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

On August 18, 1981, the Medical University was granted a temporary certification by the Materials Management Officer to procure up to a \$10,000 limit prescription items, medical, laboratory, dental and optical supplies and equipment. This temporary certification was effective until the Medical University could be examined for a regular certification by the Audit and Certification Section from the Materials Management Office.

On December 16, 1981, the Medical University submitted to the Materials Management Office a request for certification to make direct procurements for goods and services up to \$50,000 per transaction. The Medical University's Policies and Procedures Manual was also submitted at this time for review. As a result of this request, we began an audit of the procurement system on January 4, 1982.

After additional analysis of procurement needs, an amendment to the original request for certification was submitted on January 26, 1982 by the Medical University. Specifically, in the area of goods and services, the Medical University requested certification above the \$50,000 original limit for certain commodities. For medical supply items approved by the Medical University Hospital's Products Committee and for chemicals/reagents necessary for the operation of the hospital's



Department of Laboratory Medicine, the Medical University requested certification to make direct procurements up to \$500,000. For injectables and prescription drugs, unlimited certification was requested.

Also, in the area of consultant services, the Medical University requested certification to make direct procurements up to a \$50,000 limit. The amended certification request was considered in this audit report.

### SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Medical University of South Carolina and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

The Audit and Certification team of the Materials Management Office statistically selected random samples for the period July 1, 1981 - January 31, 1982, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and Emergency Regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) reporting of Fiscal Accountability Act;
- (10) warehousing, inventory and disposition of surplus property; and
- (11) economy and efficiency of the procurement process.

## SUMMARY RESULTS OF EXAMINATION

Our examination of the procurement system of the Medical University produced findings and recommendations for improvement in the following areas:

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The Procurement Division does not properly bill actual costs to using departments as required by internal policy.	
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The computer reports received by the Procurement Division showing the status of inventory activity are unreliable for use in restocking or in billing user departments.	
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V. <u>Property Management</u>	
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The Procurement Division is unable to accurately account for the status of equipment and supplies stored in the surplus property warehouse.	
B. Physical Plant Warehouse -	21
The Physical Plant has inadequate control over materials entering and leaving the warehouse.	
VI. <u>Central Supply</u>	22
External demands made on Central Supply are adversely affecting its ability to perform its primary function.	

VII. Untimely Payment of Invoices

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MUSC's procedures result in untimely payment of invoices, lost discounts and late payment charges.

VIII. Internal Audits

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There has been insufficient involvement in the procurement process by the University's Internal Audit Department.

IX. Fiscal Accountability Act

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Partially as a result of lack of clarification as to report procedures statewide, MUSC is failing to comply with the Fiscal Accountability Act reporting requirements.

X. Review of the Internal Procedures Manual

31

Additional policies should be documented in the Procurement Division Procedures Manual before final approval can be granted.

## RESULTS OF EXAMINATION

### I. Authority and Responsibility

#### A. Procurement Division's Control Over Purchasing

Our examination established that the Procurement Division is assigned the task of controlling all purchasing activity at the Medical University. It is through this division that the most efficient and cost effective procedures can be monitored.

We noted, however, three instances that were exceptions to the above authority:

##### (1) Dental Stores

The person responsible for source selection and re-stocking of inventory answers to the Business Manager of the Dental School. Inquiry determined that the source selection process employed uses specifications that exclude prospective suppliers.

##### (2) Lab Medicine

The person responsible for the source selection process (usually RFP), including receipt of proposals, evaluation and award, answers to the Dean of the Department of Lab Medicine.

##### (3) Central Supply

This section makes procurements on a rush order basis which are confirmed by purchase order after the fact. Since the Procurement Division does not know the amount of purchase, Code compliance cannot be ensured.



In all three cases the Procurement Division processes the purchase orders and theoretically assumes the responsibility.

The University, through its policy statements, specifically acknowledges the Procurement Division's responsibility and expertise to serve the best interest of the University and the State. We feel that this responsibility should be accompanied by the requisite authority and control over all procurement activity at the University.

While our audit did not detect any irresponsible or uneconomical use of the buying function in these departments, the potential is present. We, therefore, recommend that consideration be given to consolidating all University purchasing functions, from the point of submission of the requisition, under the control of the Procurement Division. In the case of Central Supply, we suggest a buyer be assigned physically to that section to expedite the purchasing activity and ensure Code compliance.

#### B. Construction Purchase Orders

Our examination revealed that the Director of the Procurement Division is signing purchase orders for construction projects while the Physical Plant handles the details of the acquisition and the Vice President of Finance signs the contractual agreements between MUSC and the contractor or related professionals. An authorized purchase order must be entered into the accounting system to establish a payment document.

Good internal control procedures dictate that control documents such as the purchase order should not be signed (approved) by an official without his knowledge or control of the procurement process or the validity of the transaction being consummated.

We recommend that MUSC establish one of the following procedures to correct this situation:

- (1) Assign the task of purchase order authorization to the same officer that signs the contracts for construction projects. (At this point the Vice President of Finance) or,
- (2) After the Physical Plant Division prepares the specifications and mails the request for bids or proposals, they be opened, evaluated and awarded under the auspices of the Director of the Procurement Division.

Either of these recommendations will establish that informed and responsible parties are signing all documents related to construction projects.

#### C. Direct Voucher Options

Using the data analyzing capability of the University's computer, an analysis was made of the quantity of purchase orders issued and their amounts for July 1, 1981 through January 18, 1982. The computer run revealed that 60% of all purchase orders issued were for \$250 or less, and the total of these was only 2.7% of total expenditures.

The National Association of Educational Buyers' handbook on "Small Purchase Procedures" identifies a number of universities using a system to control small transactions effectively. Adequate control of small orders reduces the cost of processing purchase orders and results in a measurable cost savings to the procurement section, effectively increasing economy and efficiency.

Attention must be drawn to the fact that the University is not unique in its requirements for small "one of a kind" items, but in its function as

a medical school and hospital the dimension is greatly amplified. The task of communicating procurement responsibilities and cost effective ideas to professional people in the medical area is difficult especially when patient care is the foremost concern.

Purchasing managers are aware of the necessity for small order procedures, however, they are involved in extensive manual processing of small requests at this time, with procedural development being slow to advance. A successful attempt is being made at some reduction of paper flow through the use of blanket purchase orders.

The average cost to process a purchase order has been computed by MUSC procurement management as \$25.47. During the above period the operating costs associated with processing 10,695 small purchase orders with a dollar value of \$943,361 at a per unit cost of processing of \$25.47 would be \$272,402. The expertise of the buyers and their production time can be more effectively directed towards maximizing the return for dollars spent if the number of purchase orders processed can be reduced in quantity.

In order to improve cost savings in the Procurement Division at MUSC, we recommend the implementation of a direct purchase voucher system, whereby properly authorized members of the various departments may place small direct orders with vendors. The dollar limits should be established by the Procurement Division after a thorough review. We feel that adequate monitoring controls can be established by the Director of the Procurement Division to ensure that departments are not circumventing procurement law.



## II. Compliance - General

### A. State Term Contracts

Our tests determined that the Medical University purchased a television set that was available through a state term contract of the Materials Management Office from a local vendor. We recognize that this is a single exception but it was located in a sample of only 1.5% of all purchase orders issued by the University. If this error is an indication of the number of errors of this type in all purchase orders of the institution, it could be as many as 70.

Section 11-35-310 of the Consolidated Procurement Code defines a term contract as a contract established by the Materials Management Office for a specific product or service for a specified time and from which it is mandatory that all governmental bodies procure their requirements for such goods and services during its term.

The term contract catalogue was not reviewed thoroughly to determine if the television was available.

The price paid was \$149 higher than that available on the term contract. Additionally, the University paid \$65 for shipping and handling while the term contract price was FOB destination. This means the television cost \$214 more than it should have.

We recommend that the Procurement Division be attentive to the term contract catalogue to identify items that are available before procurements are made.

B. Blanket Purchase Orders

In a test of ten blanket purchase orders, we determined that all but one were both entered into prior to the enactment of the Procurement Code and exempted from prior policies and procedures of Central State Purchasing. These blanket purchase orders provide for procurement of medical supplies, pharmaceuticals and injectables, technical medical equipment, and blood plasma.

We recognize these procurements did not have to meet the Code requirements. If so, MUSC would not have had the necessary certification to make these purchases.

However, since these needs are frequent and lend themselves well to term contracts for efficiency and cost effectiveness, a reasonable procedural system needs to be clarified and established in accordance with the Code and its ensuing regulations.

There are several options to meet these needs in accordance with the Code. We will address two which appear to us to be fair and reasonable to the user departments, MUSC, the competing vendors and in the best interest of the State.

(1) OPTION I

The Procurement Division could accumulate all data regarding user department needs, coordinate with the products evaluation or formulary committee, prepare specifications addressing function or generic description, and forward a requisition to Central State Purchasing for initial competitive source solicitation. Central State Purchasing would then coordinate with MUSC staff for an evaluation of the proposals and award the contracts; or

(2) Option II

The Procurement Division could request a commodity certification for annual term contracts only and enter into such agreements following all procedures in OPTION I except Central State Purchasing's involvement. The commodities should probably be restricted to the following:

<u>MAJOR CLASS CODES</u>	<u>DESCRIPTION</u>
#270	Drugs, Pharmaceuticals, Biologicals - Human Use
#475	Hospital Sundries
#115	Biochemical Research

Further, in such contracts no item should be identified with the sub class "99".

Predicated upon MUSC's ability to function in accordance with Article I of the Consolidated Procurement Code, we recommend OPTION II as the most efficient and cost effective method to meet the needs of MUSC and the citizens of this State. Further comments relative to this point are found in the Summary of Audit Conclusions, page 33.

C. Service Charges to Departments for Central Stores Issues

The Central Stores Warehouse for MUSC stocks over 2,500 commonly used items. As different departments need these items they order from the



Central Stores. Central Stores charges the departments the materials' cost plus a 5% service charge.

This 5% handling charge has been in effect for a number of years based on MUSC policy and has not been reviewed recently for the effects of inflation. As a result the cost of Central Stores operations is not being distributed to the user departments equitably. The Procurement Division is bearing an unfair burden of the cost of its support service in the Management Level reports. This could cause evaluation of all departments for budgetary purposes to be incorrect.

We recommend that MUSC perform an in-depth review and ascertain what costs are being incurred for the handling of supplies in Central Stores. After the break-even point is determined, an up-dated cost-plus service charge should be implemented that will adequately cover operating costs of the Central Stores operation.

#### D. Cooperative Buying Groups

MUSC expends funds to purchase membership in Carolina Affiliated Purchasing Programs (CAPP) and Educational & Institutional, Inc. (E & I), which are cooperative buying groups.

In return for these fees, MUSC receives access to the national term contracts that these groups have established. These contracts cover commodities ranging from pharmaceuticals to educational supplies.

In its source selection process, MUSC uses these contracts as firm standing offers to sell at the quoted catalogue prices as submitted by the



co-op group. When following the source selection process required by the Code, MUSC obtains the best price possible through the competitive bidding process. They then compare these prices to those in the cooperative buying group catalogue. If the co-op price is lower, the commodity is purchased from them.

No commodities on a state term contract are procured in this manner even if the co-op price is lower.

MUSC pays the following annual fees for this service:

CAPP (\$600 plus \$2.25 per bed)	\$1,750.00
E & I (approximately)	<u>100.00</u>
TOTAL	<u>\$1,850.00</u>

Our examination revealed that this is a cost effective tool in the procurement system and the monies saved far exceed the fees expended.

Additionally, when used as a "fall back" source for emergency purchases, it becomes very effective in procuring critical commodities at a competitive price particularly for pharmaceuticals, etc.

We recommend MUSC's continued use of this method and suggest a sharing of this information with other state health care agencies as a possible cost saving tool within the procurement process, properly monitored.

### III. Planning and Scheduling Acquisitions

The data processing inventory control program for Central Stores was

found to be unreliable. Our review of the reports noted negative unit balances as well as dollar amounts. These negatives have an impact on the computation of the per unit pricing and indicate that the data base is inaccurate.

The Consolidated Procurement Code, Section 11-35-20(j), states it is the agency's responsibility to develop procurement capability responsive to appropriate user needs.

Inquiry with the Assistant Director of the Procurement Division responsible for Central Stores determined that there is a fatal "flaw" in the present computer system as yet to be corrected.

As a result, for restocking purposes, management must resort to outmoded manual methods which place Central Stores in an "out of stock" condition on many items. The "out of stock" condition results in many needed items being purchased on a rush or emergency basis which is not a cost effective method in procurement.

Also, it delays implementation of procedures for accountability over other inventory stores, in the Dental Stores and Pharmacy areas, presently having no data based controls.

Additionally, the cost billed on Intra Institutional Transfers (IIT's) are incorrectly stated which would impact on the observations in Finding II-C, above.

We recommend that Central Stores continue its efforts to work with central computer control personnel to rectify this problem and update

restocking and internal billing procedures to effectively and accurately meet user department needs.

#### IV. Compliance - Consulting Services

Our test of consulting service procurements determined that the vast majority were for professional services either prior to the Code or customarily procured on a fee basis and were under \$2,500.

However, three management consultants were procured subsequent to the Code in the following amounts:

1.       \$ 600.00
2.       \$ 840.00
3.       \$4,400.00

Items #1 and #2 were procured without purchase order authority. Payment was made based on a requisition and a departmental justification of need.

Item #3 was procured with the purchase order authority. However, the purchase order was not signed by the Director of Procurement. The requisition was designated "sole source" and signed by the head of the user department and no determination was on file.

Section 19-2025, Subsection A, of the regulations states:

Services which fall within this definition  
[consultants] shall be procured in accordance  
with the Code and these...Regulations.

Additionally, Section 11-35-1560 of the Code states:

A contract may be awarded for a supply, service or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer above the level of the procurement officer determines in writing that there is only one source for the required supply, service or construction item.

MUSC's procuring two services above \$500 apart from the competitive process and one with an improper sole source designation and lack of determination resulted in their being out of compliance with the requirements of the Procurement Code.

Our review of the Internal Procedures Manual determined that policies and procedures are in place to procure these services according to the requirements of the Code. We recommend an immediate implementation of these and other written procedures.

## V. Property Management

### A. Surplus Property

The 7,500 square foot surplus property warehouse is completely full from receiving surplus property over the last several years. There have been few dispositions of surplus during this period of time. When observing the stock room, one cannot determine the following:

- (1) What is surplus property and needs to be disposed of by sale;
- (2) What should be classified as "junk";
- (3) What is being held for review and future use by MUSC departments;



(4) What is being held for spare parts.

There is a record kept on each piece of major movable equipment but the future status as stated above is not noted on such records. Additionally, the area is not properly secured.

The Code, Section 11-35-3820, states:

Each governmental body shall inventory and report to the Division [of General Services] all surplus personal property not in actual public use held by the agency for sale.

By not knowing what is being held for future use by MUSC and what should be disposed of through sale, no decision is being made to clear out unneeded surplus and "junk". This results in tying up funds that could be returned to MUSC or the General Fund for future procurements.

We recommend that MUSC establish and implement the necessary inventory procedures to be able to identify the status of the surplus property in a timely fashion. This could possibly be achieved by categorizing and storing the four types of surplus property in different areas, divided or roped off, in the warehouse and keeping a manual list of property in each section.

Additionally, we recommend that a locked gate or door be put in place to separate the Central Stores area from the Surplus Property area so that it can be properly secured or that routine physical inventories be taken to ensure accountability.

#### B. Physical Plant Warehouse

Our examination revealed that MUSC's Physical Plant Division has a warehouse used to store used materials taken out of old buildings due to renovation. The purpose of this storage is to reduce costs on future projects by using available re-usable materials, such as door frames, window frames, etc.

Further inquiry determined that there is no accountability as to the material leaving or entering this warehouse. Lack of accountability in supply management, whether new or used, opens doors for abuse, such as pilferage, theft, casualty losses for which no legitimate claim could be filed, etc.

While we commend MUSC's intent in seeking the reduction of building material costs, prudent management principles dictate that proper controls be established to safeguard the agency's assets.

We recommend the following controls be established and implemented:

- (1) A physical inventory be taken identifying the materials that are
  - (a) Re-usable
  - (b) Surplus property for resale
  - (c) Obsolete or junk.
- (2) Upon completion of this inventory, a review be made to determine if using much needed warehouse space for Physical Plant storage is the most efficient and cost effective use for the overall goals of MUSC and in the best interest of the State.
- (3) If deemed to be so, procedures and policies be established to ensure that these assets are used and protected in accordance with sound management principles of accountability.

#### VI. Central Supply

Central Supply is the University supply support service to the hospital in-patient population. This should be differentiated from Central Stores

whose function is supply support to all departments of which Central Supply is one of the major points of service.

Due to the rapidity of Central Supply's inventory turnover it views itself as an end user rather than an inventory store and depends heavily on Central Stores for re-stocking.

In May, 1981, Central Stores moved from its on-campus location to larger facilities several miles away. This left Central Supply as the most accessible storing point to most of the out-patient clinics and departments.

As a result, the user departments and out-patient clinics are depending on Central Supply to meet their needs. Due to the often critical nature of the needs in a health care institution, Central Supply is reluctant to refer these requests to Central Stores for proper processing.

This situation places undue demands on Central Supply's space availability and staff, and threatens their ability to effectively and efficiently perform their primary function, i.e., to serve the needs of the in-patient population.

We recommend that appropriate management review the Central Supply procedures and policies and take the necessary steps to ensure that this vital support function is protected from outside demands that detract from its primary goal.

#### VII. Untimely Payment of Invoices

Our examination determined that MUSC incurred lost discounts and late payment charges totaling \$1,498.18 for the period July 1, 1981 to December 31, 1981.

Our tests revealed several instances where invoices were held for prolonged period of time before payment was made. In one case, invoices



for installment payments on a long-term purchase agreement were held for four months.

Section 11-35-20 of the Consolidated Procurement Code states in part that two of the underlying purposes and policies of the Code are to promote increased public confidence in the procedures followed in public procurement and to ensure the fair and equitable treatment of all persons who deal with the procurement system of the State.

SECTION 17 of the Code states in part:

One year from the effective date of this Act all purchase contracts made pursuant to this act shall include a provision requiring payment for goods and services within thirty days following their delivery. After the thirtieth day interest at fifteen percent per annum shall be paid on any unpaid balance.

Additionally, Section 11-35-20(f) of the Consolidated Procurement Code states as one of the purposes:

to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State.

Our tests determined that the user departments are not routing the necessary documentation to Accounts Payable in a timely fashion to allow MUSC to take advantage of the vendor's offer to reduce cost and/or not penalize for prompt payment.

As a result, that portion of the appropriated funds of the State are expended in a wasteful and unnecessary manner. Additionally, if cash discounts were considered in the competitive bid process in making the award to the lowest bidder, the source selection process is undermined if after the fact such discounts are lost.

While we realize \$1,498 is not a significant amount of money, it does approximate the price of a heart valve. Therefore, we recommend that user



departments be encouraged to process the necessary receiving reports within the time frame required to facilitate prompt payment with full advantage to MUSC and the State.

#### VIII. Internal Audits

We found that there has been insufficient involvement in the procurement process by the University's Internal Audit Department.

A complete internal audit program includes a periodic review of the system of requisitioning, placing of purchase orders, receiving, etc. to determine that procurement procedures are sound and are being adhered to by user departments. As a state-supported institution the program must also include a review of the procurement process for compliance with the Consolidated Procurement Code and regulations, as well as other applicable laws and regulations.

Historically, due to time limitations, internal audit departments have been forced to concentrate their efforts in the financial area, which precluded compliance and operational programs.

This leaves a gap in the administrative control over the procurement function because this area goes without review except by external audit organizations. Although these are effective, they cannot provide the type of on-going control necessary in an area where such large sums of money are expended.

The Institute of Internal Auditors' publication entitled Standards for the Professional Practice of Internal Auditing states, "The scope of Internal Audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control

and the quality of performance in carrying out assigned responsibilities." We feel this expands the role of Internal Auditors into the areas of compliance, management and operational reviews of all areas and functions of an organization.

We recommend that Internal Audit programs be developed to test the procurement process for adequacy of internal control, compliance with the Consolidated Procurement Code, adherence to University procedures and overall effectiveness. This program should include but not be limited to periodic review of procurements at all dollar levels including the direct purchase voucher process and central stockroom operations.

We understand that plans are underway in the Internal Audit Section to perform a test of the overall procurement function. We feel this program will be advantageous to the University by providing needed control over the procurement function.

#### IX. Fiscal Accountability Act

Partially, as a result of lack of clarification as to report procedures statewide, MUSC has failed to comply with the requirements of the Fiscal Accountability Act in the following areas:

- (1) Failed to report to the Comptroller General (CG)  
a statement of all existing contracts for permanent  
or capital improvements and the status of the work  
pursuant to such contracts.
- (2) Coded purchase orders in excess of \$200 as aggregates under \$200.
- (3) Assigned incorrect commodity codes to items purchased and made excessive use of the "99" subclass code (items not otherwise classified).

- (4) Neglected to report all expenditures as required under the Act.
- (5) Neglected, since the passage of the Act (1976), to reconcile the data collected for FAA reporting to General Services with the Accounts Payable check distribution files of MUSC.

Act 561 of 1976, Section 4, states in part:

The quarterly reports required by this act shall include the following information current to the end of the last preceding quarter;

- (2) A statement of all existing contracts for permanent or capital improvements and the status of the work pursuant to such contracts....

Additionally, Section 5 states in part:

All agencies, departments and institutions of state government shall...furnish to the Division of General Services of the Budget and Control Board....a statement of all expenditures... for commodities which were not purchased through the Division. Such statements shall be prepared in the commodity code structure and report format established by the Division for reporting commodities purchased through the Division's central purchasing system....

...Expenditures for units under two hundred dollars shall be reported in the aggregate and units in excess of two hundred dollars shall be itemized.

Further, 561 as amended May 30, 1977, states in part:

...it is the intent of the General Assembly that all funds including state, federal, and other agency revenues, and also including any financial transactions covered by the budget code of the Comptroller General's office, be included in the reporting requirements of this Act....

Our examination revealed a general disregard for the reporting requirements under Act 561.



There was a lack of knowledge that the reporting of contracts for permanent and capital improvements and progress made on such projects was required.

There were no informed management personnel who realized that the code "B" on a purchase order meant "internally", a term contract, but for FAA purposes, would be reported as an aggregate under \$200. Our examination of 10 purchase orders coded "B" revealed the following:

<u>ITEM #</u>	<u>P.O.#</u>	<u>DATE</u>	<u>COMMODITY CODE</u>	<u>AMOUNT</u>
1	200002	7/1/81	270-56	\$100,000.00
2	201743	7/10/81	270-56	\$105,500.00
3	200232	7/1/81	475-09	\$109,278.03
4	202049	7/13/81	475-78	\$150,000.00
5	204458	7/28/81	*465-99	\$170,040.00
6	200273	7/1/81	*175-99	\$192,400.00
7	207313	9/3/81	*793-99	\$205,685.00
8	200049	7/1/81	*175-99	\$378,191.32
9	201004	7/1/81	270-56	\$400,000.00
10	206300	8/25/81	*742-99	<u>\$623,212.00</u>
		TOTAL OF SAMPLE		<u>\$2,434,306.35</u>
		TOTAL FAA COMMODITY REPORT 7/1/81 to 9/30/81		<u>\$12,359,505.15</u>

\*Error in Commodity Code

This sample indicates at least 20% of all commodities reported were aggregated as under \$200.

As a further indication of lack of commitment to accurate reporting was the result of our test to determine if accurate commodity codes were being assigned.

The above purchase orders were tested and five of ten were assigned incorrect commodity codes as follows:

<u>DESCRIPTION</u>	<u>ITEM</u>	<u>REPORTED COMMODITY CODE</u>	<u>DESCRIPTION</u>	<u>PER AUDIT ACCURATE COM. CODE</u>	<u>DESCRIPTION</u>
Cell Sorter FACS IV System	#5	465-99	Hospital Equip. Not otherwise classified	465-17 465-23 465-25	Clinical Lab Equip. Diagnostic Equip. Diagnostic Equip.
Heart Valves	#6	175-99	Chemical Lab. Equip. Not otherwise classified	465-14	Hospital Equip. Cardiology Equip. & Instruments
Food Services	#7	793-99	Services Non- Personal Not otherwise classified	793-31	Services Non- Personal Food Service
Reagents	#8	175-99	Chemical Lab Equip. Not otherwise classified	270-28	Drugs, Phar., Biolog. Reagents
Blood Plasma	#10	742-99	Rents/Leases Not otherwise classified	270-28	Drugs, Phar., Biolog. Blood Plasma

Of the five above, two were incorrect as to major class, (items 8 & 10), and all indicated a reluctance to accurately identify the minor classes by reporting all as "99's". Further review of the FAA report, 7/1/81 to 9/30/81, revealed that well over 60% of all purchases were coded "99" in the minor class of the commodity code structure.

In our efforts to reconcile the FAA report to the disbursement file, we discovered that MUSC was not reporting all commodities. Excluded from the report were the following:

P.O. 202446, ARA Services, Inc. \$2,715,143.00

All Bookstore Purchases

All Library Purchases

Further examination discovered that no person internally reviews the FAA reports for any reason whatsoever and that no management effort is made to financially reconcile the procurement data to the external reporting process since the enactment of FAA. After the original purchase order is prepared and entered into the data base for FAA, the task is considered completed. Any change orders or alterations to the original are not entered into the same data base. Therefore, the total dollar amounts of procurements as finalized are inaccurately reported.

The General Assembly, without a major audit effort, cannot readily know the procurement activity of MUSC in the areas of:

- (1) Permanent and capital improvements;
- (2) Procurements over \$200 with vendors identified and commodities purchased;
- (3) Total commodities purchased with any degree of fiscal reliability.

Additionally, by not establishing FAA input as a reliable data base, MUSC deprives itself of the internal fringe benefits that could result therefrom, such as,

- (1) Planning and scheduling acquisitions;
- (2) Consolidation of commodities for better prices;
- (3) Monitoring of user department needs for efficiency, cost effectiveness and small order abuse;
- (4) Evaluation of purchasing goals.

Until such time as updated statewide guidelines are finalized, we recommend MUSC take prompt action to establish and implement the necessary controls to ensure the following:

- (1) The Comptroller General receives a quarterly report on all existing contracts and status of work done on



capital and permanent improvements;

- (2) The Procurement Division correct the coding of purchase orders to properly reflect all orders over \$200 and review all commodity code assignments in detail for accuracy;
- (3) The Vice President of Finance instruct all procurement centers, i.e., Library, Book-store or others, to report all commodity purchases to the Central Data Center for proper and accurate processing.

X. Review of the Internal Procedures Manual

The Medical University submitted a copy of their Procurement Division Procedures Manual, as required by Section 19-2005 of the Emergency Regulations, to the Materials Management Office for review to determine that written internal operating procedures as submitted are consistent with the Consolidated Procurement Code and ensuing regulations.

Due to the recent implementation of the Code and its ensuing regulations, the University has not had time to document all the necessary policies and procedures to ensure their compliance with the Consolidated Procurement Code.

We recommend that the following items be added within the internal procedures manual:

- (1) Minority Business Enterprise Utilization Plan;

- (2) Clarification of sole source designee and procedures relating thereto.

## SUMMARY OF AUDIT CONCLUSIONS

We have examined the procurement policies and procedures of the Medical University of South Carolina for the period July 1, 1981 - January 31, 1982. As a part of our examination, we reviewed and tested the University's system of internal control over procurement transactions to the extent we considered necessary to evaluate the procurement system. The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and University procurement policy. Additionally, the evaluation was used in determining the nature, timing, and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

The objective of internal control is to provide reasonable but not absolute, assurance of the safeguarding of the procurement process, and of the reliability of the purchasing records. The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions. Further, projection of any evaluation of internal control to



future periods is subject to the risks that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

It should be understood that our study and evaluation of the University's system of internal control over procurement operations for the period July 1, 1981 - January 31, 1982, which was made for the purpose set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system.

Our review of the system of internal procurement control did, however, disclose the aforementioned conditions which we believe to be subject to improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Medical University of South Carolina in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code subject to the above corrective action, we recommend that the Medical University of South Carolina be certified to make direct agency procurements as follows:

RECOMMENDED CERTIFICATION LIMITS

I. GOODS AND SERVICES

A. Term Contracts Only

Certification is recommended for MUSC to enter into term contracts up to one year in length from which the

total dollar value of procurements would not exceed the indicated dollar limits for the below named commodities. Only one such contract per vendor would be permissible.

1. Chemical/reagents, injectables, prescription drugs and all other commodities defined in the CSP Commodity Code Manual under #115 - Biochemical Research and #270 - Drugs, Pharmaceuticals, Biologicals - Human Use, initially approved by MUSC's Products Evaluation Committee.

\$750,000

2. Medical Supply items and all other commodities defined in the CSP Commodity Code Manual under #475 - Hospital Sundries, initially approved by MUSC's Products Evaluation Committee.

\$500,000

B. Technical and medical equipment and all other commodities defined in the CSP Commodity Code Manual under #465 - Hospital Equipment.

\$50,000, per purchase commitment

C. All other goods and services procurements.

\$10,000, per purchase commitment

II. CONSULTANT CONTRACTS -

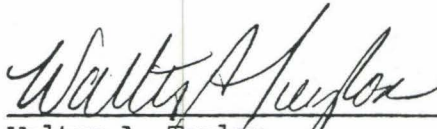
Not to exceed \$10,000 to one person or firm within a 12 month period.

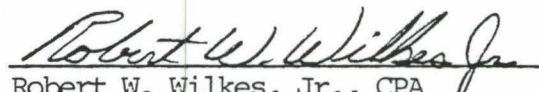
\$10,000, per purchase commitment

Our analysis determined that these certification limits would result in MUSC handling at least 97.6% of all purchase order transactions and an estimated 90% of dollar amounts committed in the procurement process.

As noted in Finding IV, procedures had not been implemented to ensure that procurement of consultant services were in compliance with the Code. However, we feel based on the Procurement Procedures Manual that the same control systems which apply to goods and services also will apply to consulting services; therefore, we recommend that the certification limit of \$10,000 be extended to this area of procurement.

Certification in the areas of Information Technology and Construction are not being addressed in this report because the University did not request to be certified above \$2,500 in these areas. Our examination, however, included a review of these areas for compliance as required by the Code.

  
\_\_\_\_\_  
Walter A. Taylor  
In Charge Auditor

  
\_\_\_\_\_  
Robert W. Wilkes, Jr., CPA  
Director, Audit and Certification



MAY 03 1982

OFFICE OF THE VICE-PRESIDENT FOR FINANCE  
(803) 792-5050



## Medical University of South Carolina

171 ASHLEY AVENUE / CHARLESTON, SOUTH CAROLINA 29425

May 3, 1982

Ms. Barbara A. McMillan  
Director, Contracts and Audit Management  
Materials Management Office  
800 Dutch Square Boulevard  
Suite 150  
Columbia, South Carolina 29210

Dear Ms. <sup>Barbara</sup>McMillan:

Enclosed is our formal reply to the procurement audit report contained in your April 15, 1982 letter. After thorough review, we chose to respond to each separate recommendation.

Our procurement staff is most anxious to complete the certification process and eagerly await your next on-site visit.

We appreciate the highly professional manner in which this audit has been conducted and presented.

Sincerely,

*Marion*

Marion E. Woodbury  
Vice-President for Finance

MEW/dgw

Enclosure

RESPONSE TO  
AUDIT AND CERTIFICATION REPORT  
of the  
MATERIALS MANAGEMENT OFFICE  
dated  
April 15, 1982

Audit Recommendations

MUSC Response

Consideration be given to consolidating all University purchasing functions, from the point of submission of the requisition, under the control of the Procurement Division. (Dental Stores, Lab Medicine, Central Supply)

Consideration has now been given to consolidating all University purchasing functions. Medical University Hospital Administration and University Procurement have discussed and are pursuing the feasibility of having the Department of Laboratory Medicine buyer report to University Procurement and of physically locating a buyer in Central Supply. Similar discussions are continuing between the College of Dental Medicine and University Procurement. Budgetary constraints prevent any immediate change in Central Supply and Dental Stores.

A buyer be assigned physically to Central Supply.

(See above)

The task of purchase order authorization be assigned to the same officer that signs the contracts for construction projects.

As chief fiscal officer for the Medical University of South Carolina, the Vice President for Finance will henceforth sign all contracts and purchase orders for construction projects.

Implementation of a direct purchase voucher system.

Policies and procedures for a Department Purchase Order system have been written. Presentation and explanation of the system is scheduled for a May 1982 procurement workshop being held for department personnel. The implementation date for the Department Purchase Order system is July 1, 1982.

Procurement be attentive to the state term contract catalogue to identify items that are available before procurements are made.

All MUSC Buyers have the responsibility of ensuring adherence to all state contracts (See Internal Procedures Manual 2.8.5). The error pointed out during the review was simply an error on the part of an individual and not a routine practice. Such errors may reflect negatively on buyer performance and would be addressed during the evaluation process.

MUSC request commodity certification for annual term contracts for major class codes number 270, number 475 and number 115 (See Option II, Page 15 of Audit Report)

MUSC Procurement agrees with the recommendation for Option II.

MUSC perform an in-depth review of costs for Central Stores. Implement an up-dated cost-plus service charge.

An in-depth review has recently been completed to identify all costs associated with the Central Stores operation. As a result of the review an increase in the service charge has been scheduled to go in effect July 1, 1982. The present 5% will be increased to 11%.



## Audit Recommendations

Continued use of co-op purchases and sharing of information with other state health care agencies.

Central Stores continue its efforts to work with central computer control to rectify problems and update restocking and internal billing procedures.

Immediate implementation of written internal procedures relating to consulting services and sole source.

MUSC establish and implement the necessary inventory procedures to be able to identify the status of the surplus property in a timely fashion.

A locked gate or door be put in place to separate Central Stores from the Surplus Property area.

Controls be established and implemented for the Physical Plant Warehouse.

Appropriate management review the Central Supply procedures and policies and take the necessary steps to ensure that this vital support function is protected from outside demands that detract from its primary goal.

User departments be encouraged to process the necessary receiving reports to facilitate prompt payment of invoices.

## MUSC Response

MUSC Procurement agrees with the recommendation and statements concerning co-op purchases and sharing of information.

The data processing inventory control program for Central Stores is in the process of being replaced by a newly acquired online supplies Inventory Control and Purchasing program purchased from Management Science America, Inc. This program will give Central Stores the ability to correct the problems stated. In addition, the program features automatic generation of purchase orders for stock items when inventory on hand reaches re-order points.

These written procedures have been implemented. (See University procurements Policies, Procedures and Practices Manual 2.12.6, Consultant Services and 2.12.14 Sole Source Procurements.)

Even though there may not appear to be a system for determining the disposition of surplus equipment, there is a system (See attachment number one). In addition, disposition of surplus equipment has been made in the past (See attachment number two).

MUSC Safety Office has informed University Procurement that a locked gate or door installed to separate Central Stores from the Surplus Property area would be in violation of fire ordinances. Security is maintained through controlled access requirements monitored by the Surplus Property Clerk and Central Central Stores personnel.

MUSC's Director of Physical Plant has agreed with the recommendation.

Central Supply is currently being reviewed by Hospital Administration and University Procurement. The review is primarily focusing on preparation necessary prior to utilizing the newly acquired supply inventory control and purchasing computer program and secondly on policy and procedural changes necessary to protect the integrity of Central Supply's primary mission.

Department personnel have been reminded of the proper procedure for the payment of invoices with the March 1982, distribution of University Procurement's Policies, Procedures, and Practices Manual. A second measure to underscore the importance of the procedure will be taken in May 1982 when University Procurement and Accounts Payable will conduct a workshop on this and other procedures.



## Audit Recommendations

## MUSC Response

Internal Audit programs be developed to test the procurement process.

MUSC take prompt action to establish and implement the necessary controls to ensure compliance with FAA reporting requirements.

MBE Plan and sole source designee and procedures relating thereto be added to the internal procedures manual.

MUSC be certified to make direct agency procurements within noted limites.

The Office of the Internal Auditor has recently conducted an audit of the Central Stores operation. University Procurement will be included in the schedule of future internal audits to test for adequacy of internal control, compliance with the Consolidated Procurement Code, adherence to University procedures and overall effectiveness.

MUSC will begin providing the Controller General with quarterly reports on all existing contracts for permanent and capital improvements. University Procurement has corrected the coding of purchase orders to properly reflect all orders over \$200.00 and in reviewing all commodity code assignments in detail for accuracy.

The Minority Business Enterprises utilization Plan has been added to University Procurement's internal procedures manual (See Exhibit 14). The sole source designee is the Vice President for Finance. He will make all written determinations for sole source procurements.

### Term Contracts Only

University Procurement is in the process of identifying one major pharmaceutical supplier through the request for proposal method. Presently, we utilize two pharmaceutical suppliers whose combined annual sales to MUSC may exceed \$750,000.00. This is the only exception to full agreement with the levels of certification for use of term contracts.

### Technical And Medical

We are in full agreement on the recommended level of certification for technical and medical equipment.

### Other Goods And Services

We disagree with the recommended level of certification for all other goods and services for the following reason: While the \$10,000.00 level would permit more responsiveness on the part of University Procurement to our departments than the present \$2,500.00 it does not allow the degree of responsiveness desired by the large research contingent of the University. We feel that a certification level of \$20,000.00 would be more appropriate particularly when goods and services are needed for federally funded research projects. Timing can be and often is critical in such cases.

### Consultant Contracts

We agree with the certification level recommended.



## STATE OF SOUTH CAROLINA

BUDGET AND CONTROL BOARD  
DIVISION OF GENERAL SERVICES  
300 GERVAIS STREET  
COLUMBIA, SC 29201

MATERIALS MANAGEMENT OFFICE  
800 DUTCH SQUARE BLVD. SUITE 150  
COLUMBIA, SOUTH CAROLINA 29210

June 7, 1982

BARBARA A. McMILLAN  
DIRECTOR, CONTRACTS AND  
AUDIT MANAGEMENT  
803/758-6060

Mr. Tony R. Ellis  
Materials Management Officer  
800 Dutch Square Boulevard, Suite 150  
Columbia, South Carolina 29210

Dear Tony:

We have returned to the Medical University of South Carolina to determine the progress made toward implementing the recommendations in our audit report covering the period of July 1, 1981 - January 31, 1982. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the University has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. We feel that, with the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additionally, our review determined to be valid the Medical University's response regarding the \$750,000 certification for term contracts as being inadequate under the condition that a pharmaceutical contract be entered into with one supplier.

We, therefore, recommend that the certification limits for the Medical University, as outlined in the audit report, be revised as follows:

### RECOMMENDED CERTIFICATION LIMITS

#### I. GOODS AND SERVICES

##### A. Term Contracts Only

Certification is recommended for MUSC  
to enter into term contracts up to one year  
in length from which the total dollar value

of procurements would not exceed the indicated dollar limits for the below named commodities. Only one such contract per vendor would be permissible.

1. Chemical/reagents, injectables, prescription drugs and all other commodities defined in the CSP Commodity Code Manual under #115 - Biochemical Research and #270 - Drugs, Pharmaceuticals, Biologicals - Human Use, initially approved by MUSC's Products Evaluation Committee. \$1,000,000

2. Medical Supply items and all other commodities defined in the CSP Commodity Code Manual under #475 - Hospital Sundries, initially approved by MUSC's Products Evaluation Committee. \$500,000

B. Technical and medical equipment and all other commodities defined in the CSP Commodity Code Manual under #465 - Hospital Equipment. \$50,000, per purchase commitment

C. All other goods and services procurements. \$10,000, per purchase commitment

## II. CONSULTANT CONTRACTS

Not to exceed \$10,000 to one person or firm within a 12 month period.


\$10,000, per purchase commitment



Mr. Tony R. Ellis  
June 7, 1982  
Page 3

We recommend these certification limits be granted for a period of two (2) years, or until the Materials Management Office Audit and Certification Section returns to the institution.

Sincerely,

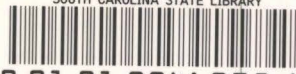
A handwritten signature in cursive script, reading "Barbara A. McMillan".

Barbara A. McMillan, Director  
Contracts and Audit Management

BAM:rms



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